

To: Department Heads and Administration & Finance Staff  
From: Karen A. Connor, Director, OBM  
Date: December 5, 2008  
Re: FY10 Budget Process

As we continue to work to meet the current challenges of the evolving financial landscape, the City must now turn to the task of preparing for even greater challenges in FY10. It is increasingly clear that the resources that we expect to be available in FY10 will not support the same level of appropriations that you received in FY09 as well as increases in fixed costs such as pensions and health insurance. It is within this difficult context that we must begin the FY10 budget development process early so that we maximize our strategic options for cost reductions in the coming year.

Like the choices facing our counterparts in Washington, at the State House and in city and town halls across the country, ours will be unpleasant. But we need to remember that the cost of *inaction* is even higher – and, ultimately, unacceptable. At the same time, it's worth pausing for just a moment to note that our situation would be much more dire if not for the prudent fiscal and management steps we have taken over the last few months such as a more stringent review of hiring and non-personnel spending. But make no mistake – given the depth and breath of the country's economic problems, our challenges remain daunting.

While the City is projecting growth in the property tax for the coming year, other major sources of revenue are expected to decline. The Commonwealth of Massachusetts is facing a substantial revenue-spending gap for FY10 and decisions about to be made regarding local aid levels will have a major impact on all municipalities. This comes on top of the fact that we have never regained local aid levels that existed prior to FY03. State aid remains our second-largest source of revenue and is vital to the support of our core operations. In addition to reductions in state aid, the City is expecting declines in revenues particularly vulnerable to a weak economy such as from motor vehicle excise taxes, hotels, and building permits.

More details on the State's budget gap will be available when the Governor presents his budget in January, but we must begin planning now in order to deliver a balanced budget to the City Council in April. The budget database (Hyperion) to be used for your FY10 budget development is now available. You should begin work immediately on your FY10 Budget Plan knowing that the City will not be able to support a level appropriation for your department in FY10. FY10 Budgets must be completed by **December 31.**

The Mayor has been clear about how the City must set its priorities in these difficult times: by focusing on delivering critical services to our constituents while driving efficiencies throughout our operations. We will need to take a hard look at what, when, where and how we deliver these services in order to bring costs down. The FY10 budget process will require departments to think creatively about collaborations with other City agencies or external partners in order to provide services. For those of you with external resources this also means that an all-funds approach to budgeting is essential.

As always, your Management Analysts and senior members of my staff will be available to assist you with your work. I will keep you updated on relative information as we work together on the difficult task ahead.